

Report
of the
Examination of
Wilson Mutual Insurance Company
Sheboygan, Wisconsin
As of December 31, 2003

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Jim Doyle, Governor
Jorge Gomez, Commissioner

Wisconsin.gov

June 24, 2004

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Honorable Jorge Gomez
Commissioner of Insurance
State of Wisconsin
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Commissioner:

In accordance with the instructions of the Wisconsin Commissioner of Insurance, a compliance examination has been made of the affairs and financial condition of:

WILSON MUTUAL INSURANCE COMPANY
Sheboygan, WI

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of Wilson Mutual Insurance Company (the company or Wilson) was conducted in 1999 as of December 31, 1998. The current examination covered the intervening period ending December 31, 2003, and included a review of such 2004 transactions as deemed necessary to complete the examination.

The examination consisted of a review of all major phases of the company's operations, and included the following areas:

- History
- Management and Control
- Corporate Records
- Conflict of Interest
- Fidelity Bonds and Other Insurance
- Employees' Welfare and Pension Plans
- Territory and Plan of Operations
- Affiliated Companies
- Growth of Company
- Reinsurance
- Financial Statements
- Accounts and Records
- Data Processing

Emphasis was placed on the audit of those areas of the company's operations accorded a high priority by the examiner-in-charge when planning the examination. Special attention was given to the action taken by the company to satisfy the recommendations and comments made in the previous examination report.

The section of this report titled "Summary of Examination Results" contains comments and elaboration on those areas where adverse findings were noted or where unusual situations existed. Comment on the remaining areas of the company's operations is contained in the examination work papers.

The company is annually audited by an independent public accounting firm as prescribed by s. Ins 50.05, Wis. Adm. Code. An integral part of this compliance examination was the review of the independent accountant's work papers. Based on the results of the review of these work papers, alternative or additional examination steps deemed necessary for the completion of this examination were performed. The examination work papers contain documentation with respect to the alternative or additional examination steps performed during the course of the examination.

II. HISTORY AND PLAN OF OPERATION

The company was organized in 1872 as a town mutual insurer, under the name Town of Wilson Mutual Fire Insurance Company. Subsequent amendments to the company's articles and bylaws changed the name of the company to that presently used. The company was converted to a Wisconsin domestic mutual insurance company, under ch. 611, Wis. Stat., effective January 1, 1986, and became a nonassessable mutual insurance company on April 2, 1991.

The company absorbed all of the assets and assumed all of the liabilities of Plymouth Mutual Insurance Company on December 31, 1991; Ashford Mutual Insurance Company on October 1, 1996; Dunn County Mutual Insurance Company on January 1, 1997; and Dodgeville Mutual Insurance Company on July 1, 1998.

In November of 2001, Wilson policyholders approved an affiliation with The Motorists Insurance Group of Columbus, Ohio. Wilson operates as a member of the Motorists Group. See section captioned "Affiliated Companies" for a description of the various agreements that the company has with members of the group.

The company is licensed in the states of Wisconsin and Ohio, and its entire direct premium is written in Wisconsin.

The major products marketed by the company include farmowner's, homeowner's, commercial multiple-peril, private passenger auto, and auto physical damage insurance. The major products are marketed through 130 independent agencies.

The following table is a summary of the net insurance premiums written by the company in 2003. The growth of the company is discussed in the "Financial Data" section of this report.

Line of Business	Direct Premium	Reinsurance Assumed	Reinsurance Ceded	Net Premium
Fire	\$ 521,848	\$ 208,388	\$ 521,847	\$ 208,389
Allied lines	404,216	161,480	404,217	161,479
Farmowner's multiple peril	6,413,608	201,792	6,413,608	201,792
Homeowner's multiple peril	9,237,722	2,699,734	9,237,722	2,699,734
Commercial multiple peril	6,097,475	1,795,888	6,097,475	1,795,888
Ocean marine		11,407		11,407
Inland marine	116,088	432,725	116,088	432,725
Earthquake		53,454		53,454
Other accident and health		2,721		2,721
Worker's compensation	1,491,038	698,429	1,491,038	698,429
Other liability - occurrence	552,611	1,209,428	552,611	1,209,428
Products liability - occurrence		123,207		123,207
Private passenger auto liability	5,187,128	3,509,509	5,187,128	3,509,509
Commercial auto liability	429,601	2,118,833	429,601	2,118,833
Auto physical damage	5,321,885	3,785,112	5,321,885	3,785,112
Fidelity		29,973		29,973
Surety		6,817		6,817
Burglary and theft		12,378		12,378
Boiler and machinery		(964)		(964)
Reinsurance - non-proportional assumed property		207,943		207,943
Reinsurance - non-proportional assumed liability		158,527		158,527
Total All Lines	<u>\$35,773,220</u>	<u>\$17,426,781</u>	<u>\$35,773,220</u>	<u>\$17,426,781</u>

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors consists of nine members. The board is comprised of two classes of directors. Class I are elected for a four-year term and Class II are elected for a six-year term. Officers are elected at the board's annual meeting. A board member currently receives \$500 per diem for each meeting attended and an annual retainer of \$9,000. There are no additional fees associated with committee meetings.

Currently the board of directors consists of the following persons:

Name and Residence	Principal Occupation	Term Expires
Bishop, John J. Powell, OH	Chairman and Chief Executive Officer Motorists Mutual Insurance Company	2007
Bowers, Richard B. Manitowoc, WI	Owner of an insurance and financial product sales agency	2005
Cooper, John L. Circleville, OH	Retired	2007
Dekker, Alan N. Columbus, OH	Retired	2007
McCracken, Robert L. Manitowoc, WI	Partner of Nash, Spindler, Grinstead & McCracken, LLP	2005
Ogg, Thomas C. Powell, OH	Senior Vice President and Secretary Motorists Mutual Insurance Company	2007
Rabold, Robert E. H. Columbus, OH	Retired	2007
Western, Robert L. Sheboygan, WI	President and Chief Operating Officer Wilson Mutual Insurance Company	2005
Wiseman, Michael L. Powell, OH	Senior Vice President, Treasurer and Chief Financial Officer Motorists Mutual Insurance Company	2007

Officers of the Company

The board of directors annually elects the officers of the company, to serve one-year terms. The officers serving at the time of this examination are as follows:

Name	Office	2003 Compensation
Bishop, John J.	Chairman and Chief Executive Officer	\$376,656*
Western, Robert L.	President and Chief Operating Officer	212,837
Ogg, Thomas C.	Secretary	230,571*
Wiseman, Michael L.	Treasurer	228,335*
Hayon, James F.	Vice President of Claims	84,076
Jones-Fahser, Tami	Vice President of Administration	76,867
Manteufel, Steven E.	Vice President of Marketing	75,465

* Note - Total compensation of John Bishop, Thomas Ogg, and Michael Wiseman is paid by Motorists Mutual Insurance Company. Intercompany charges to Wilson Mutual (based on time studies) are \$28,833 for John Bishop, \$21,529 for Thomas Ogg, and \$21,417 for Michael Wiseman. These are the direct (pre-pooled) charges.

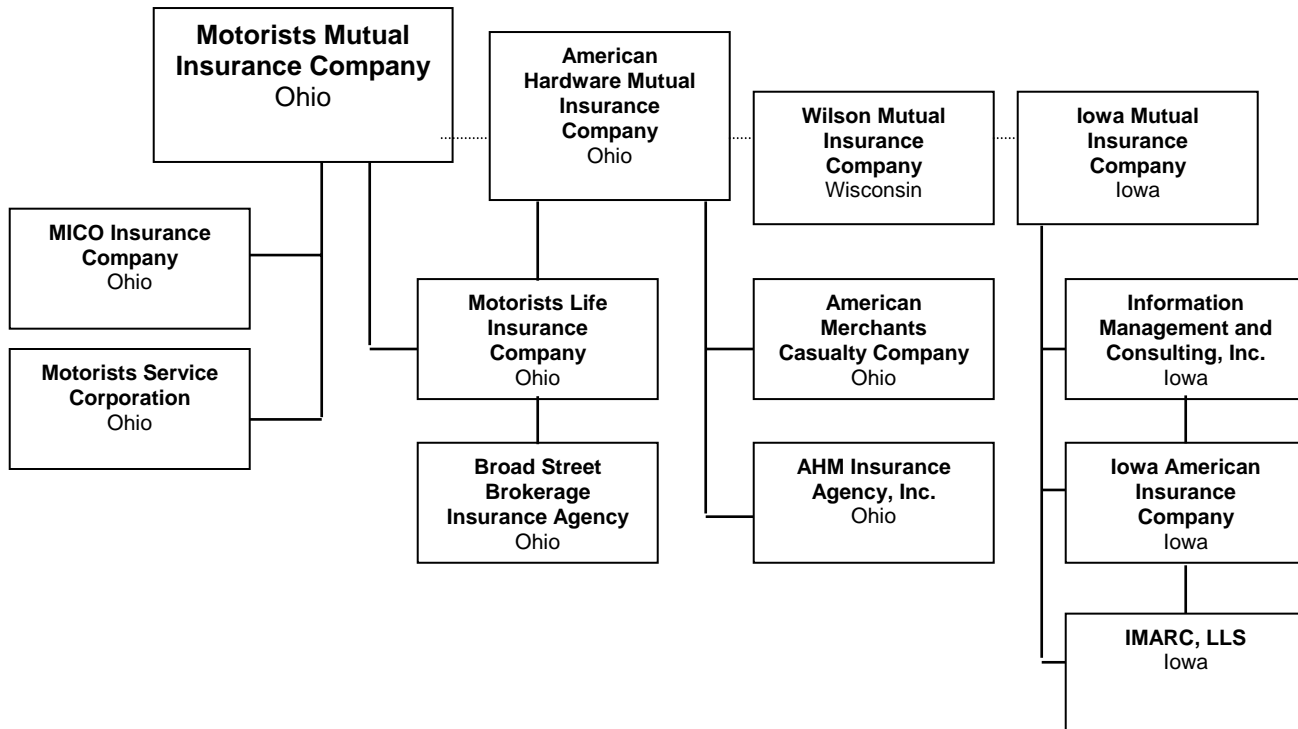
Committees of the Board

There are no committees of the Wilson board. All discussion items and matters for board action are brought before and decided by the entire board of directors.

IV. AFFILIATED COMPANIES

Wilson is a member of a holding company system. The organizational chart below depicts the relationships among the affiliates in the group. A brief description of the significant affiliates follows the organizational chart.

**Organizational Chart
As of December 31, 2003**



Motorists Mutual Insurance Company

Motorists Mutual Insurance Company (Motorists), the largest and lead insurer in the Motorists Insurance Group was formed in 1928. Motorists offers a wide range of both personal and commercial products. In 2003, Motorists accounted for 70.0% of the direct premiums written by the six-member pool. As of December 31, 2003, the audited financial statements of Motorists reported assets of \$923,544,000, liabilities of \$552,547,000, and surplus of \$370,997,000. Operations for 2003 produced net income of \$8,628,000.

American Hardware Mutual Insurance Company

American Hardware Mutual Insurance Company (American Hardware) was formed as a Minnesota company in May of 1899 by a group of hardware store owners. American Hardware is licensed in 49 states. The company markets its products through an employee sales force and its direct writings are almost exclusively commercial risks. In 2003, American Hardware accounted for 15.7% of the direct premiums written by the six-member pool. As of December 31, 2003, the audited financial statements of American Hardware reported assets of \$217,800,000, liabilities of \$125,734,000, and surplus of \$92,066,000. Operations for 2003 produced net income of \$4,499,000.

American Merchants Casualty Company

American Merchants Casualty Company (American Merchants) was formed as a wholly owned stock subsidiary of American Hardware in 1986. The company's direct writings are currently in run-off. In 2003, American Merchants accounted for .001% of the direct premiums written by the six-member pool. As of December 31, 2003, the audited financial statements of American Merchants reported assets of \$29,743,000, liabilities of \$18,270,000, and surplus of \$11,473,000. Operations for 2003 produced net income of \$808,000.

Iowa Mutual Insurance Company

Iowa Mutual Insurance Company (Iowa Mutual) was formed in 1900 as The Iowa Assessment Mutual Fire Insurance Association. Iowa Mutual markets its products through independent agents and writes both personal and commercial policies with roughly 56% of its business in personal lines. In 2003, Iowa Mutual accounted for 7.5% of the direct premiums written by the six-member pool. As of December 31, 2003, the audited financial statements of Iowa Mutual reported assets of \$50,480,000, liabilities of \$29,298,000, and surplus of \$21,182,000. Operations for 2003 produced net income of \$5,636,000.

Iowa American Insurance Company

Iowa American Insurance Company (Iowa American) was formed in 1973 as an Iowa corporation. Iowa American markets its products through independent agents and focuses on low to moderate risk commercial policies. In 2003, Iowa American accounted for 0.5% of the direct

premiums written by the six-member pool. As of December 31, 2003, the audited financial statements of Iowa American reported assets of \$9,082,000, liabilities of \$3,774,000, and surplus of \$5,308,000. Operations for 2003 produced a net loss of \$16,000.

Agreements with Affiliates

The company is a participant in a reinsurance pooling agreement. See section captioned "Reinsurance" for a description of the agreement.

The company and Motorists have a cost-sharing and management agreement wherein Motorists is responsible for managing the business affairs of Wilson.

On January 1, 2003, all employees of the company became employees of Motorists Service Corporation (MSC), a wholly-owned subsidiary of Motorists. Concurrent with the employee transfer, the company and MSC entered into an Employee Leasing Agreement whereby the company leases its former employees from MSC for the direct costs associated with maintaining the staff.

V. REINSURANCE

Wilson participates in a reinsurance agreement wherein 100% of the net premiums, losses, loss adjustments expenses and underwriting expenses of all the companies are pooled and redistributed at the following percentages: 74.5% for Motorists Mutual, 18.5% for American Hardware, 3% for Wilson Mutual, 3.5% for Iowa Mutual, and .5% for Iowa American. The contract contained proper insolvency provisions.

VI. FINANCIAL DATA

The following financial statements reflect the financial condition of the company as reported to the Commissioner of Insurance in the December 31, 2003, annual statement. Also included in this section are schedules that reflect the growth of the company, NAIC Insurance Regulatory Information System (IRIS) ratio results for the period under examination, and the compulsory and security surplus calculation. Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Surplus per Examination."

Wilson Mutual Insurance Company
Assets
As of December 31, 2003

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$19,505,017	\$	\$19,505,017
Stocks:			
Preferred stocks	120		120
Common stocks	4,152,241		4,152,241
Real estate:			
Occupied by the company	973,911		973,911
Cash	786,616		786,616
Short-term investments	2,052,941		2,052,941
Other invested assets	194,558	19,487	175,071
Receivable for securities	960		960
Investment income due and accrued	185,552		185,552
Premiums and considerations:			
Uncollected premiums and agents' balances in course of collection	1,701,959		1,701,959
Deferred premiums, agents' balances, and installments booked but deferred and not yet due	3,823,709		3,823,709
Reinsurance:			
Amounts recoverable from reinsurers	2,274,284		2,274,284
Funds held by or deposited with reinsured companies	30,763		30,763
Current federal and foreign income tax recoverable and interest thereon	76,111		76,111
Net deferred tax asset	1,612,805	685,983	926,822
Electronic data processing equipment and software	69,150		69,150
Furniture and equipment, including health care delivery assets	49,290	49,290	
Receivable from parent, subsidiaries, and affiliates	18,253		18,253
Write-ins for other than invested assets:			
Officer life insurance cash surrender value	1,441,270		1,441,270
Equities and deposits in pools and associations	64,439		64,439
Summary of remaining write-ins from the overflow page	<u>49,877</u>	<u>49,877</u>	<u> </u>
Total Assets	<u>\$39,063,826</u>	<u>\$804,637</u>	<u>\$38,259,189</u>

Wilson Mutual Insurance Company
Liabilities, Surplus, and Other Funds
As of December 31, 2003

Losses		\$ 9,794,354
Reinsurance payable on paid loss and loss adjustment expenses		922,733
Loss adjustment expenses		2,147,338
Commissions payable, contingent commissions, and other similar charges		512,147
Other expenses (excluding taxes, licenses, and fees)		190,347
Taxes, licenses, and fees (excluding federal and foreign income taxes)		241,297
Unearned premiums		6,815,568
Advance premium		189,006
Dividends declared and unpaid:		
Policyholders		34,665
Ceded reinsurance premiums payable (net of ceding commissions)		3,086,646
Funds held by company under reinsurance treaties		39,116
Drafts outstanding		406,866
Payable to parent, subsidiaries, and affiliates		281,762
Payable for securities		9,181
Write-ins for liabilities:		
Escheatable Funds		37,101
Premium deficiency reserve		1,590
Pooled general expenses payable		<u>92,881</u>
Total Liabilities		24,802,598
Surplus notes	\$10,000,000	
Unassigned funds (surplus)	<u>3,456,591</u>	
Surplus as Regards Policyholders		<u>13,456,591</u>
Total Liabilities and Surplus		<u>\$ 38,259,189</u>

Wilson Mutual Insurance Company
Summary of Operations
For the Year 2003

Underwriting Income

Premiums earned \$15,961,738

Deductions:

Losses incurred \$9,566,723

Loss expenses incurred 1,989,929

Other underwriting expenses incurred 5,355,006

Write-ins for underwriting deductions:

Change in premium deficiency reserve (3,570)

Salvage and subrogation adjustment (23,412)

Total underwriting deductions 16,884,676

Net underwriting gain or (loss) (922,938)

Investment Income

Net investment income earned 901,739

Net realized capital gains or (losses) 48,563

Net investment gain or (loss) 950,302

Other Income

Net gain or (loss) from agents' or premium balances
charged off (34,780)

Finance and service charges not included in premiums 104,520

Write-ins for miscellaneous income:

Change in officer life insurance cash surrender value 53,203

Total other income 122,943

Net income (loss) before dividends to policyholders and
before federal and foreign income taxes 150,307

Dividends to policyholders 45,829

Net income (loss) after dividends to policyholders but
before federal and foreign income taxes 104,478

Federal and foreign income taxes incurred (40,572)

Net Income \$ 145,050

Wilson Mutual Insurance Company
Cash Flow
For the Year 2003

Premiums collected net of reinsurance		\$16,821,301
Net investment income		957,810
Miscellaneous income		<u>122,944</u>
Total		17,902,055
Benefit and loss related payments	\$ 7,648,795	
Commissions, expenses paid, and aggregate write-ins for deductions	6,767,051	
Dividends paid to policyholders	28,774	
Federal and foreign income taxes paid (recovered)	<u>12,911</u>	
Total deductions		<u>14,457,532</u>
Net cash from operations		3,444,523
Proceeds from investments sold, matured, or repaid:		
Bonds	\$4,299,122	
Stocks	621,991	
Other invested assets	25,351	
Miscellaneous proceeds	<u>6,784</u>	
Total investment proceeds		4,953,248
Cost of investments acquired (long-term only):		
Bonds	9,587,637	
Stocks	666,286	
Miscellaneous applications	<u>(9,186)</u>	
Total investments acquired		<u>10,244,737</u>
Net cash from investments		(5,291,489)
Cash from financing and miscellaneous sources:		
Other cash provided (applied)		511,590
Reconciliation		
Net change in cash and short-term investments		(1,335,376)
Cash and short-term investments, December 31, 2002		<u>4,174,932</u>
Cash and short-term investments, December 31, 2003		<u><u>\$ 2,839,556</u></u>

Wilson Mutual Insurance Company
Compulsory and Security Surplus Calculation
December 31, 2003

Assets				\$38,259,189
Less liabilities				<u>24,802,598</u>
Adjusted surplus				13,456,591
Annual premium:				
Individual accident and health	\$	2,721		
Factor		<u>15%</u>		
Total			\$	408
Group accident and health		0		
Factor		<u>10%</u>		
Total				0
Lines other than accident and health		17,378,231		
Factor		<u>20%</u>		
Total			<u>3,475,646</u>	
Compulsory surplus (subject to a minimum of \$2 million)				<u>3,476,054</u>
Compulsory surplus excess (or deficit)				<u>9,980,537</u>
Adjusted surplus (from above)				\$13,456,591
Security surplus: (140% of compulsory surplus, factor reduced 1% for each \$33 million in premium written in excess of \$10 million, with a minimum factor of 110%)				<u>4,866,475</u>
Security surplus excess (or deficit)				<u>\$ 8,590,116</u>

Wilson Mutual Insurance Company
Reconciliation and Analysis of Surplus
For the 5-Year Period Ending December 31, 2003

The following schedule is a reconciliation of total surplus during the period under examination as reported by the company in its filed annual statements:

	2003	2002	2001	2000	1999
Surplus, beginning of year	\$12,575,795	\$13,162,318	\$ 4,232,771	\$4,290,323	\$4,206,517
Net income	145,050	(540,592)	(1,090,775)	(433,157)	(49,441)
Net unrealized capital gains or (losses)	721,336	(203,775)	(314,707)	238,303	(28,979)
Change in net deferred income tax	(133,824)	585,152			
Change in nonadmitted assets	207,885	(888,322)	94,081	83,484	47,729
Change in surplus notes			10,000,000		
Cumulative effect of changes in accounting principles		508,484	240,948		
Write-ins for gains and (losses) in surplus:					
Change in excess of statutory reserve				(16,027)	105,950
Change in prior year deferred compensation	(59,651)				
Officers Life Insurance				69,845	8,547
Prior year investment gain/ loss adjustment	_____	_____(47,470)	_____	_____	_____
Surplus, end of year	<u>\$13,456,591</u>	<u>\$12,575,795</u>	<u>\$13,162,318</u>	<u>\$4,232,771</u>	<u>\$4,290,323</u>

**Wilson Mutual Insurance Company
Insurance Regulatory Information System
For the 5-Year Period Ending December 31, 2003**

The company's NAIC Insurance Regulatory Information System (IRIS) results for the period under examination are summarized below. Unusual IRIS results are denoted with asterisks and discussed below the table.

	Ratio	2003	2002	2001	2000	1999
#1	Gross Premium to Surplus	395.0%	348.0%	143.0%	409.0%	408.0%
#2	Net Premium to Surplus	130.0	88.0	88.0	228.0	249.0
#3	Change in Net Writings	58.0*	(4.0)	19.0	(9.0)	(4.0)
#4	Surplus Aid to Surplus	0.0	0.0	4.0	15.0*	18.0*
#5	Two-Year Overall Operating Ratio	99.0	104.0*	105.0*	102.0*	102.0*
#6	Investment Yield	3.6*	4.0*	3.4*	4.9	4.7
#7	Change in Surplus	8.0	(7.0)	165.0*	2.0	1.0
#8	Liabilities to Liquid Assets	79.0	76.0	59.0	112.0*	107.0*
#9	Agents' Balances to Surplus	13.0	11.0	13.0	58.0	54.0*
#10	One-Year Reserve Development to Surplus	7.0	5.0	13.0	0.0	(5.0)
#11	Two-Year Reserve Development to Surplus	11.0	12.0	11.0	0.0	(7.0)
#12	Estimated Current Reserve Deficiency to Surplus	(19.0)	(50.0)	2.0	(2.0)	(3.0)

As noted earlier, in November of 2001, Motorists Mutual Insurance Company affiliated with the company. The company was then added to the affiliated pooling arrangement with a 3% participation in the net retained business. Several exceptional ratios were a result of these changes.

Ratio No. 3 measures the company's change in net writings over the previous two-year period. The exceptional result in 2003 was due to the fact that the company experienced a 36% growth in written premium compared with 2002.

Ratio No. 6 measures the average return on the company's investments. The exceptional investment yield is attributed to the company's large tax exempt holdings, which provide traditionally lower investment returns offset by tax benefits.

Ratio No. 7 measures the company's change in surplus over a two-year period. The exceptional result in 2001 was due to a \$10,000,000 surplus note issued by the company and purchased by Motorists.

Ratio No. 8 measures the company's liabilities as a percentage of liquid assets. The exceptional results in 1999 and 2000 were due to severe storm damage to several of the company's policyholders and the related negative cash flow.

The Agents' Balances to Surplus exceptional ratio in 1999 was due to the fact that the company included deferred premiums with agents' balances in course of collection. The company corrected the problem after year-end 1999 as the amounts were properly separated.

Growth of Wilson Mutual Insurance Company

Year	Admitted Assets	Liabilities	Surplus As Regards Policyholders	Net Income
2003	\$38,259,189	\$24,802,598	\$13,456,591	\$ 145,050
2002	32,100,668	19,524,873	12,575,795	(540,592)
2001	25,252,082	12,089,764	13,162,318	(1,090,775)
2000	14,885,188	10,652,417	4,232,771	(433,157)
1999	13,887,151	9,596,830	4,290,323	(49,441)
1998	13,766,366	9,559,849	4,206,517	(425,600)

Year	Gross Premium Written	Net Premium Written	Premium Earned	Loss And LAE Ratio	Expense Ratio	Combined Ratio
2003	\$53,200,001	\$17,426,781	\$15,961,738	72.4%	29.9%	102.3%
2002	43,753,144	11,034,798	12,729,953	74.6	33.0	107.6
2001	18,855,801	11,545,559	10,340,494	80.8	30.9	111.7
2000	17,304,496	9,668,742	9,557,706	73.1	35.7	108.8
1999	17,489,092	10,680,187	10,468,559	70.6	32.6	103.2
1998	17,664,053	11,107,625	10,202,879	74.7	34.2	108.9

In November of 2001, Wilson policyholders approved an affiliation with The Motorists Insurance Group of Columbus, Ohio. As part of the affiliation, the company issued a \$10,000,000 surplus note that was purchased by Motorists Mutual Insurance Company. The note was issued in conjunction with the affiliation agreements entered into by the two companies. The company's gross and net premium written has increased significantly over the past 5 years. This is due to its pooling agreement with The Motorists Insurance Group and due to the fact that the company has aggressively marketed its products over the past several years. The company's combined ratio has averaged well over 100% over the past five years. The company experienced a net income from operations for the first time in several years during 2003.

Reconciliation of Surplus per Examination

No adjustments were made to surplus as a result of the examination. The amount of surplus reported by the company as of December 31, 2003, is accepted.

VII. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There were 14 specific comments and recommendations in the previous examination report. Comments and recommendations contained in the last examination report and actions taken by the company are as follows:

1. Management and Control—It is recommended that the composition of the company's board of directors comply with the provisions of s. 611.51 (2), Wis. Stat.

Action—Compliance

2. Compulsory and Security Surplus Calculation—It is recommended that, until otherwise determined by the Commissioner, for purposes of compulsory and security surplus calculation, the company exclude surplus derived from commissions on ceded reinsurance from its statutory reported capital and surplus, in compliance with s. Ins 51.80, Wis. Adm. Code.

Action—Compliance

3. Executive Deferred Compensation Liability—It is recommended that the company report as its deferred compensation benefit plan liability an amount equal to the actuarial present value of all future plan benefits expected to be paid by the company based on the expected amount and timing of future benefits that are attributable to an employee's service rendered as of the financial reporting date. It is further recommended that the company report its deferred compensation liability as a separately captioned and specifically identified liability balance in its statutory financial statements.

Action—Compliance

4. Executive Compensation Filings/Reporting—It is recommended that the company's annual report on executive compensation filled with its statutory annual statement make full disclosure of the company's executive compensation, including any and all gross direct and indirect remuneration paid to or accruing on behalf of respective company personnel in compliance with ss. 601.42 and 611.63 (4), Wis. Stat., and in compliance with annual statement disclosure instructions.

Action—Compliance

5. Executive Compensation Filings/Reporting—It is recommended that the company's board of directors provide to the Office of the Commissioner of Insurance a report explaining in detail the basis for evaluating reasonable compensation for the company's senior executive.

Action—Compliance

6. Corporate Merger-Financial Reporting—It is recommended that the company report its merged current-year and restated prior-year data for any future corporate merger in accordance with the accounting practices proscribed by the NAIC Annual Statement Instructions-Property and Casualty.

Action—Compliance

7. Accounts and Records—It is recommended that the company maintain accounts and records or the ability to reproduce accounts and records sufficient to document and support the transactions and account balances reported in the company's annual statutory financial statements, in conformity with s. Ins 6.80, Wis. Adm. Code.

Action—Compliance

8. Information Technology—It is recommended that the company implement physical and logical computer systems security, including the establishment of procedures and controls to ensure that: 1. The computer system be housed in a locked room, with physical access limited to personnel who need to have access to perform their work, 2. Passwords be required to contain at least six characters, and passwords be required to be changed at least quarterly, 3. There be ongoing periodic review of password violations, 4. An individual's IT system access authorization be limited to hardware and software that the employee needs for his job duties, and that 5. System access authorization be denied to a terminated employee immediately upon the employment termination.

Action—Compliance

9. Disaster Recovery Plan—It is recommended that the company establish and maintain a comprehensive disaster recovery plan to provide for the business continuation needs of the company. The required plan must be specific to the company's information technology environment, and must provide for those resources that would be necessary for the company to maintain business continuation or establish disaster recovery in the event of significant business interruption. It is further recommended that the company test, review, and update its business continuation plan as necessary and at minimum annually, so as to maintain the plan to reflect the company's current systems and operations. It is further recommended that the company establish procedures for the storage of critical business supplies, document forms, and documentary manuals off-site to ensure their availability if needed for business continuation purposes.

Action—Compliance

10. Real Estate—It is recommended that the company establish reasonable estimated useful lives of its real estate assets, notify this office of the revised estimated useful lives adopted, and use appropriate estimates as the basis for determination of the accumulated depreciation of the respective real estate assets reported in the company's statutory annual statements, in conformity with the NAIC Accounting Practices and Procedures Manual for Fire and Casualty Insurance Companies.

Action—Compliance

11. EDP Equipment—It is recommended that the company nonadmit its nonoperating system computer software, and that the company exclude all nonoperating software from the capitalized EDP equipment reported as an admitted asset in the company's statutory annual statements, in conformity with the NAIC Accounting Practices and Procedures Manual for Fire and Casualty Insurance Companies.

Action—Compliance

12. Unclaimed Property Liability—It is recommended that the company establish one or more ledger accounts for unclaimed property liability, and periodically recognize its liability for stale outstanding checks in its unclaimed property liability ledger accounts. It is further recommended that the company establish a procedure to correspond with payees of old uncashed checks, to follow up on uncashed checks to attempt to clear outstanding disbursements on a timely basis.

Action—Compliance

13. Unclaimed Property Liability—It is recommended that the company make all appropriate filings and remittances of unclaimed property, pursuant to ch. 177, Wis. Stat.

Action—Compliance

14. Excess of Statutory Reserves Over Statement Reserves—It is recommended that the company ensure that its liability for minimum statutory reserves in excess of statement reserves is properly calculated and reported in its statutory annual statements, in conformity with NAIC Annual Statement Instructions-Property and Casualty.

Action—Compliance

Summary of Current Examination Results

The current examination did not result in any findings of material exception, and did not result in any recommendations requiring company action or compliance.

VIII. CONCLUSION

In November of 2001 Wilson Mutual Insurance Company policyholders approved an affiliation with The Motorists Insurance Group of Columbus, Ohio. As part of the affiliation, the company issued a \$10,000,000 surplus note that was purchased by Motorists Mutual Insurance Company. The note was issued in conjunction with the affiliation agreements entered into by the two companies.

The company's direct and net premium written has increased significantly over the past five years. This is due to its pooling agreement with The Motorists Insurance Group and due to the fact that the company has aggressively marketed its products over the past several years.

The current examination of Wilson Mutual Insurance Company resulted in no adjustments to surplus, no reclassifications, and no recommendations. The company was in compliance with all of the recommendations made by the previous examination.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

No current examination recommendations were noted during the course of the exam

X. ACKNOWLEDGMENT

The courtesy and cooperation extended during the course of the examination by the officers and employees of the company are acknowledged.

In addition to the undersigned, the following representatives of the Office of the Commissioner of Insurance, State of Wisconsin, participated in the examination:

Name	Title
Karl Albert	Financial Insurance Examiner

Respectfully submitted,

Rick Anderson
Examiner-in-Charge